REPORT ON EXAMINATION AS TO THE CONDITION OF

CUMBERLAND MUTUAL FIRE INSURANCE COMPANY

BRIDGETON, NEW JERSEY 08302

AS AT DECEMBER 31, 2006

N.A.I.C. GROUP CODE 0054

N.A.I.C. COMPANY CODE 13684

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State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
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JON S. CORZINE
Governor

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STEVEN M. GOLDMAN
Commissioner

June 23, 2008

Honorable Steven M. Goldman
Commissioner of Banking and Insurance
State of New Jersey
Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

Cumberland Mutual Fire Insurance Company
BRIDGETON, NEW JERSEY
N.A.I.C. GROUP CODE 0054
N.A.I.C. COMPANY CODE 13684

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, the Cumberland Mutual Fire Insurance Company will be referred to in this report as the "Company" or "CMFIC".

The “Cumberland Insurance Group” in this report is referring to the group entity of Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc.

SCOPE OF EXAMINATION

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by Section 17:23-22 of the New Jersey Revised Statutes.

The examination was made as at December 31, 2006, and addressed the four-year period from December 31, 2002, the date of the last Financial Condition Examination. During this four-year period under examination, the Company's assets increased from $200,317,025 to $261,664,798. Liabilities increased from $74,338,334 to $121,880,278 and its surplus to policyholders increased from $125,968,691 to $139,784,520.

The conduct of the examination was governed by the procedures outlined in the NAIC Financial Condition Examiners Handbook and followed accepted procedures of regulatory authorities and generally accepted insurance company examination standards.

In determining the emphasis to be placed on specific accounts, consideration was given to the Company's system of internal control, the nature and size of each account, its relative importance to solvency, and the results of the analytical reviews performed within the New Jersey Department of Banking and Insurance.

The material accounts specific to the Company are Losses and Loss Adjustment Expenses, Unearned Premiums, Uncollected Premiums, Investments and Reinsurance. We have assessed the following emphasis level for these accounts:

Loss and Loss Adjustment Expenses	**High**
Unearned Premiums	**High**
Uncollected Premiums	**High**
Investments	**High**
Reinsurance	**High**

All other accounts were determined to have low control risk. Other areas reviewed during this examination included:

History and Kind of Business
Management and Control
Territory and Plan of Operation
Accounts and Records
Employees' Welfare and Pension Plans
Fidelity Bond and Other Insurance Coverages
Treatment of Policyholders
Continuity of Operations

The control risk level will ultimately determine the amount of emphasis placed on each account. Based on our review of Exhibit B, discussions with the Department's IS Specialist concerning the completion of Exhibit C by the Company, the cycle questions and verification

of Company responses to these questions on a test basis, the intended reliance on the Company's control environment has been determined to be low.

The examination report, contained herein, will address significant balance sheet accounts and, if necessary, comments on those accounts which involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

Parent, Subsidiaries and Affiliates

2002 Examination Recommendation

It is recommended that the Company complete Schedule Y – Part 2 "Summary of Insurer's Transactions with any Affiliates" in all future annual statements.

Company Response

The Company will, in the future, complete Schedule Y – Part 2 "Summary of Insurer's Transactions with any Affiliates".

2006 Examination Findings

The Company is in compliance with this recommendation, as noted through the review of their amended 2006 Schedule Y - Part 2. The Company is properly including all affiliates in Schedule Y - Part 2 "Summary of Insurer's Transactions with any Affiliates".

Continuity of Operations

2002 Examination Recommendation

It is recommended that the Company finalize development and testing of a business continuity plan.

Company Response

Cumberland Mutual Fire Insurance Company continues to develop its business continuity plan and should have it finalized early in 2005.

2006 Examination Findings

The Company has complied with the recommendation by establishing a Disaster Recovery Plan which is tested, reviewed and updated annually.

Bonds

2002 Examination Recommendation

It is recommended that the Company review the NAIC's current guidance concerning custodial agreements and that its agreement be updated to reflect current NAIC guidance.

Company Response

Cumberland has changed its custodian since the examination and now believes that we are in compliance with current NAIC guidelines.

2006 Examination Findings

The Company was in compliance with NAIC's current guidance concerning custodial agreements when they switched to Wachovia Bank.

Cash on Hand and on Deposit

2002 Examination Recommendation

It is recommended that the Company review and correct its Newfield National Bank payroll account.

Company Response

Cumberland Mutual Fire Insurance Company will reconcile Newfield National Bank payroll account in a more timely fashion.

2006 Examination Findings

The Company has set up procedures to reconcile the Newfield National Bank payroll account each month.

Agents Balances or Uncollected Premiums

2002 Examination Recommendation

It is recommended that the main office monitor the portion of this asset attributed to its Downingtown Office and that all supporting records be reconciled to the year end trial balance.

Company Response

Cumberland continues to convert the Downingtown's office to our main computer system, enabling us to reconcile balances to our year end trial balance. This conversion should be finished in 2005.

2006 Examination Findings

The Company has converted the Downingtown office premium system to the Company's main computer system. The Company has complied with this recommendation.

Losses

2002 Examination Recommendation
It is recommended that the Company maintain accurate Schedule P data files that will permit electronic auditing in the future.

Company Response
Cumberland Mutual Fire Insurance Company continues to convert the Downingtown Office to our main computer system. Once the conversion is complete, the Schedule P data files will permit electronic auditing in the future.

2006 Examination Findings
The Company has complied with this recommendation.

HISTORY AND KIND OF BUSINESS

The Cumberland Mutual Fire Insurance Company was incorporated on February 23, 1844 under a special act of the Legislature of the State of New Jersey. The Company operated under the name Cumberland Mutual Assurance Company for its first forty years of operation. On February 17, 1848, the Company amended its Charter to change their name to "Cumberland Mutual Fire Insurance Company". A supplement to the Charter, on April 4, 1867, made the duration of the Company perpetual.

A Certificate of Adoption of the Amended Charter of the Company was approved by the Attorney General on February 3, 1958 and filed with the New Jersey Department of Banking and Insurance on February 4, 1958. This amendment was filed to update the Company's full Charter.

An Amended Certificate of Authority was issued by the Commissioner of Banking and Insurance of the State of New Jersey on August 5, 1958, which authorized the Company to transact the business of writing insurance against the various risks and perils named in said Certificate, being the kinds of insurance specified in paragraph "a", "b", "d", "e", "f", "j", "k", "l", "m", "n", and "o" of N.J.S.A. 17:17-1.

A Certificate of Adoption of the Amended Charter of the Company was filed with the New Jersey Department of Banking and Insurance on September 26, 1997. This amendment was filed to update the second paragraph of the Company's Charter as follows:

> **"Second: The location of the principal office is at 633 Shiloh Pike, in the Township of Hopewell, County of Cumberland, State of New Jersey…, and the registered agent upon whom process may be served shall be the Company."**

A Certificate of Adoption of the Amended Charter of the Company was approved by the Attorney General on March 23, 2000 and filed with the New Jersey Department of Banking and Insurance on March 31, 2000. This amendment was filed to update the third paragraph of the Company's Charter as follows:

"Third: Paragraph "o" shall be amended to read as follows: (o) Against all losses to building and structures, including consequential loss; and against loss or damage to property of others, caused by an insured; against loss or damage to property by power failure or mechanical breakdown."

"Third: Paragraph "d" as it currently exists shall be deleted and shall be substituted as follows: To enter into a contract or agreement whereby an insurer is obligated to pay or allow a benefit of pecuniary value with respect to the bodily injury, disablement, sickness, death by accident or accidental means of a human being, or because of any expense relating thereto, or because of any expense incurred in prevention of sickness, and includes every risk pertaining to any of the enumerated risks."

The Board of Managers of Chester County Mutual Insurance Company (Chester) and the Board of Directors of Cumberland Mutual Fire Insurance Company (CMFIC) have adopted resolutions to enter into a "Plan" and "Agreement of Reorganization" (Plan and Agreement) where-by, on October 1, 2000, Chester will be merged with and into Cumberland under the name of the Cumberland Mutual Fire Insurance Company. The Merger is conditioned upon certain circumstances contained in the Plan and Agreement. These circumstances include but are not limited to the conditions that (i) the total policyholders' surplus of Chester at the time of merger shall be at least 2 million dollars; (ii) the A.M. Best rating of CMFIC, which is currently A+, shall not be reduced as a result of the merger; (iii) the approval of all regulatory agencies having jurisdiction over the merger shall be obtained; (iv) the approval of the members of each company shall be obtained; (v) the surviving company shall qualify to do business in New Jersey, Pennsylvania, Maryland and Delaware; (vi) there is no litigation which adversely affects the proposed merger; and (vii) there are no material errors, misstatements or omissions in any representations or warranties contained in the Plan and Agreement. Cumberland Mutual Fire Insurance Company is now authorized and licensed to transact insurance in the States of New Jersey, Pennsylvania, Delaware and Maryland. Upon Chester's merger with CMFIC, the Cumberland Insurance Group has acquired and owns 100 shares of Chester County Insurance Agency, Inc.

The Board of Directors of Mutual Fire Insurance Company in Calvert County (Mutual Fire) and the Board of Directors of Cumberland Mutual Fire Insurance Company (CMFIC) have adopted resolutions to enter into a "Plan" and "Agreement of Reorganization" (Plan and Agreement) where-by, on January 1, 2004, Mutual Fire will be merged with and into CMFIC. The name of the Surviving Corporation shall be the Cumberland Mutual Fire Insurance Company and governed by the laws of New Jersey. CMFIC will succeed, without other transfer, to all the rights and property of Mutual Fire and will be subject to all the debts and liabilities of Mutual Fire in the same manner as if CMFIC had incurred them. All rights of creditors and all liens on the property of each constituent corporation will be preserved, unimpaired, limited in lien to the property affected by the liens immediately prior to the Merger. The Surviving Corporation will carry on business with the assets of Mutual Fire as well as with the assets of CMFIC. The Certificate of Incorporation of Cumberland as existing on the effective date of the merger, will continue in full force as the Certificate of Incorporation of the Surviving Corporation until altered, amended or repealed as provided

in the Certificate or as provided by law. CMFIC is now authorized and licensed to transact insurance in the State of New Jersey, Maryland, Delaware and Pennsylvania. The management of the Cumberland Mutual Fire Insurance Company shall be the current officers of CMFIC and the President of Mutual Fire, William F. Fowler, who will be employed by CMFIC as Maryland Personal Lines Branch Manager for a term of three years.

STATUTORY DEPOSITS

As of December 31, 2006, the Company maintains a $100,000 US Treasury Bond, 7.125%, due 2/15/2023, with the State of Delaware, in trust for the benefit and security of all the policyholders of Cumberland Mutual Fire Insurance Company.

TERRITORY AND PLAN OF OPERATION

Cumberland Mutual Fire Insurance Company is a domestic mutual insurance company licensed to transact business in the states of New Jersey, Pennsylvania, Maryland, Delaware and Ohio. At December 31, 2006, the Company reported direct premiums written of $98,438,779. The percentage of these premiums written in New Jersey, Pennsylvania, Maryland and Delaware were 74%, 17%, 6% and 3% respectively.

The Company operates as a not-for-profit regional mutual insurance company. The Company has gradually expanded its product lines and territories. In 2002, they acquired a technology team in Mansfield, Ohio to develop new technological systems to deliver products, services and information to meet the needs of the consumer. The Company plans on writing insurance policies in Ohio commencing in year 2008 or 2009. In 2004, Mutual Fire Insurance Company in Calvert County, a Maryland Mutual Company, merged into Cumberland Mutual. As a result of the merger, Cumberland Mutual is licensed and authorized to transact business in Maryland. As of December 2006, the Company wrote the following lines of business: fire, allied lines, farmers multiple peril, homeowners multiple peril, commercial multiple peril, inland marine, workers compensation, other liability – occurrence, product liability – occurrence, commercial auto liability, auto physical damage, burglary and theft, boiler and machinery and reinsurance. The Company also assumes coverage from the NJ Crime and Fair Plan and the Mutual Reinsurance Bureau which deal with the mandatory and voluntary pools.

CMFIC markets its products predominately through a network of approximately 325 independent agents. The Company utilizes an agency agreement which has been revised as of January 1, 2006. The Company has no MGA relationships.

The Company maintains various service agreements with vendors who are not affiliated with the Company. These include the following:

<u>TPA Service Agreement</u> between PMA Management Corp. (PMA), a Pennsylvania Corporation, and Cumberland Insurance Group was entered into on April 19, 2002. Under the terms of this agreement, PMA agrees to provide customary and appropriate workers'

compensation claims handling services for Pennsylvania insured's for all qualified claims or losses. Such claims handling services for each qualified claim or loss include but are not limited to the investigation, adjusting, settling or litigating, investigation and pursuit of subrogation, setting reserves and necessary and customary administrative tasks. This agreement is effective May 1, 2002, for a term of three (3) years until April 31, 2005. Thereafter, the Agreement was extended for another five (5) years until April 30, 2010. The Agreement may be terminated upon sixty (60) days advance written notice by either party with or without cause.

<u>Agency Agreement</u> between Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company (the Company) and each individual agent. The Company hereby grants authority to the Agent to receive and accept proposals for such contracts of insurance, for which the agent has been appointed covering risks on policies as the Company has authority lawfully to make; subject to restrictions placed upon such Agent by the laws of the State in which such Agents is authorized to write insurance business to the terms and conditions here-in-after set forth. The Agent agrees wholly to abide by the rules, underwriting instructions and guidelines of the Company. The Agency Agreement was revised January 1, 2006 to address, among other things, Errors and Omissions coverage and i-Solutions information, stop-loss limits and commissions.

<u>Computer Software License Agreement</u> between The Freedom Group Inc., an Iowa Corporation (TFG) and Cumberland Mutual Fire Insurance Company (licensee) effective April 30, 2001. This is an addendum to the original agreement dated July 28, 1992 with the original licensee Chester County Mutual Insurance Company as a result of the merger of Chester County Mutual into Cumberland Mutual Fire Insurance Company. TFG herby grants to licensee a perpetual, non-exclusive, non-transferable right to use the Software Product specifically set forth in Addendum A for the sole purpose of Licensee's business operations. The Agreement shall continue in perpetuity provided payment of the maintenance fee, as set forth in Addendum B, are made.

<u>Computer Services Corp. (CSC) Master License Agreement</u> is effective March 21, 1991, by and between Policy Management Systems Corporation (PMSC) and Cumberland Mutual Fire Insurance Company (CMFIC). This Agreement grants CMFIC a license only to use the System and does not grant or assign to CMFIC any legal, equitable title or modifications of the System. The term of this Agreement commences on its effective date and is indefinite in duration. The term will continue so long as there is an Attachment in force as a part of this Agreement.

<u>EPS Software License Agreement</u> between SunGard Insurance Systems, Inc. (SIS) and Cumberland Mutual Fire Insurance Company is effective July 22, 2002. SIS grants to CMFIC a limited-scope term license to use as identified in Schedule "A" on the designated computer and locations as identified on Schedule "B" of this Agreement. SIS shall provide the following ongoing support services such as telephone assistance and solving production problems. CMFIC's initial license fee and annual license fees are identified in Schedule "C". The term of this Agreement begins on the effective date and shall continue for five (5) years, and thereafter for successive three (3) year renewal terms unless and until terminated in accordance with this Agreement. SIS or CMFIC may terminate this Agreement at the end

of the Initial Term or at the end of any Renewal Term by giving at least ninety (90) days prior written notice of termination.

<u>AGO Insurance Software Systems Agreement</u> between AGO Insurance Software, Inc. and Cumberland Mutual Fire Insurance Company for the license of the proprietary software product, Business-owners' Policy Production System, Workers' Compensation Policy Production System and Workers' Compensation Policy Transaction Reporting System, all are for Windows 95 (SYSTEM) which is executed on August 19, 1999. AGO grants a non-exclusive and non-transferable license to use the SYSTEM, in executable object code only, and not the source code, subject to the provisions of the Software License Agreement and the attached Proposal (collectively, the "Agreement"). The Contract Period is from the executed date until sixty (60) months after the date AGO verifies the installation of the SYSTEM. At the end of the contract period, CMFIC shall have the option of extending the license according to terms and fees to be negotiated between the parties at that time. This agreement is non-cancellable during the contract period. After the initial contract period, either party may terminate the agreement upon ninety (90) days written notice to the other party.

<u>Simsol Software License Agreement</u> between Simultaneous Solutions Incorporated (SIMSOL) and Cumberland Insurance Group (licensee) commencing on August 1, 2006 for a period of 12 months. The Licensee receives an Authorized Copy of the Software provided by SIMSOL pursuant to this Agreement. The Licensee agrees to use the Software only on an Authorized Computer and obtain from SIMSOL additional licenses for any additional computer. SIMSOL will provide support services to locate and correct any material coding error and other material defects in the Software, provide any new releases of the Software and provide telephone support. This software is a property estimating program for the Company's adjusters.

<u>License and Service Agreement</u> between Chester County Mutual Insurance Company, of Coatesville, Pennsylvania, and Insurance Automation Systems, Inc. (IAS), an Ohio Corporation, was effective June 11, 1993. As at May 16, 1996, IAS transferred all of its rights and obligations to Insurance Data Processing, Inc. (IDP) the "Transaction". As at March 1, 2005, the Software Licensing Agreement is between IDP and Cumberland Mutual Fire Insurance Company. This was due to Chester County Mutual Insurance Company's merger into CMFIC on October 1, 2000. These Transactions do not amend or modify the terms of the Original Agreement with IAS which are as follows: IAS is to develop a Rating and Policy Issuance Program for the rating, policy issuance and stat code generation of the following commercial lines of business: general liability, property, glass, crime, inland marine and BOP for the States of Pennsylvania, Delaware, Maryland and New Jersey. This agreement shall take effect upon the execution by the parties and shall continue in full force and effect for a period of three (3) years or until terminated. Both parties may terminate this Agreement for cause immediately upon written notice to the other party.

<u>Alliance Claims Solutions Service</u> provides around-the-clock claim reporting, statement taking, glass program administration, desk review and billing services to insurance companies nationwide. They have a set price per claims loss reports and unrelated claims reports.

A review of the Company's service agreements with their outside vendors disclosed that the Company does not have an executed contract with "Alliance Claims Solutions" for their around-the-clock claims reporting service. It is recommended that the Company execute a signed contract with "Alliance Claims Solutions" for the services which are provided to the Company by Alliance Claims Solutions.

<u>Asset Allocation & Management Co., LLC Investment Agreement</u> includes the following agreements:

- **<u>Investment Advisory Agreement</u> between Asset Allocation & Management Company, LLC (AAM), located in Chicago, Illinois and Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company (Clients) made on February 1, 2000. As investment adviser, AAM shall act with respect to the assets of Clients in accordance with their written investment guidelines and only with prior approval of Clients, except where specific investment parameters are agreed to in writing in advance; and they shall prepare and deliver monthly and quarterly reports which shall list all assets in the Client's account. AAM's services shall be compensated in accordance with its schedule of fees current from time to time, upon sixty (60) days prior written notice. This Agreement is not subject to assignment by AAM except with the written consent of Client. This Agreement may be terminated at any time by either party upon thirty (30) days prior written notice to the other party.**

- **<u>Investment Management Agreement</u> between AAM Advisors, Inc. (AAM), an Illinois corporation and Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company (Client) made on February 1, 2000. The Client designates and appoints AAM as investment adviser for the management of Convertible Securities with regard to the cash and securities listed in Exhibit A. AAM shall have full authority and discretion to supervise the management of the securities in accordance with the client's written investment guidelines. AAM may engage a Sub-Advisor with regard to the management of the convertible securities. The client shall receive monthly and quarterly reports which shall list all assets in Client's account. This Agreement shall continue in effect until terminated by either party upon thirty (30) days prior written notice.**

- **<u>Investment Management Fee Agreement</u> made among AAM Advisors, Inc., Zazove Associates, LLC and Cumberland Mutual Fire Insurance Company (the Client), and dated June of 2001. This agreement sets forth the management fees to be paid by Cumberland in connection with the assets of the Client that are to be managed under the Convertible Program. In the event of early termination prior to the close of a Fiscal Year, modifications shall be applied to the annual incentive fee. This Agreement may be modified, amended or supplemented only by a written instrument which is signed by the parties. And the Agreement shall be governed by the laws of the State of Illinois.**

<u>Subscription Agreement & Power of Attorney - AAM / Zazove Institutional Income Fund, L.P.</u> - The subscriber, Cumberland Mutual Fire Insurance Company, hereby irrevocably subscribes for a $2,000,000 limited partnership interest in AAM / Zazove Institutional Income Fund L.P., a Delaware limited partnership which is made on August 31, 2000. The

subscriber hereby acknowledges and agrees that they are not entitled to cancel, terminate or revoke this subscription which shall survive the subscribers death, incapacity, disability or insolvency. This Agreement shall be governed by and interpreted in accordance with the laws of the Cayman Islands.

The Company conducts its everyday business operations from its statutory home and main administrative office located at 633 Shiloh Pike, Bridgeton, New Jersey 08302. This location handles administrative functions for the entire company as well as the personal and commercial lines underwriting, claims and marketing for New Jersey. The Company also maintains three branch offices in Coatesville, Pennsylvania which provide underwriting, marketing and claims services for Pennsylvania, Delaware and Maryland; Prince Frederick, Maryland which provides underwriting services for personal lines and farm business in the State of Maryland; and Mansfield, Ohio which serves as an information technology center for the Company.

CMFIC maintains an in-house claims department which handles the notification, processing, adjusting and payment of claims for New Jersey, Pennsylvania, Delaware and Maryland. The New Jersey only workers compensation claims are handled by Garden State Reinsurance Association (GSRA); and Pennsylvania workers compensation claims are handled by PMA Management Corp., as a provider of third-party administrative services (TPA). As at February 2007, the Company withdrew from the GSRA's claims processing services for New Jersey and switched over to PMA Management Corp. Please see section titled Subsequent Events.

At December 31, 2006 the Company had a total of 187 employees.

CORPORATE RECORDS

The Company's By-laws, which were amended in March of 2006, stipulate that the annual meeting of the shareholders will be held on the second Monday of March of each year, at the principal office of the Corporation or at such place which may be authorized by the Board of Directors. The President or the Board may call special meetings of the members. Notice of the time and place of each annual meeting and each special meeting of members shall be given by publishing the notice of meetings at least two times in a public newspaper printed in the County of Cumberland in the State of New Jersey.

The Board of Directors governs the business of the Company. Each director shall be elected by the shareholders at each annual meeting and shall hold office until the next annual meeting of shareholders. The Board shall consist of not more than fifteen Directors or less than nine Directors, the exact number to be fixed from time to time by resolution adopted by a majority of the full Board. Annual meeting of members of this Corporation, at which directors shall be elected, shall be held on the second Monday of March of each year and special meetings may be called by the President from time to time. A majority of the entire Board of Directors, or any committee thereof, shall constitute a quorum for the transaction of business.

A review of the minutes of the Board of Director's meetings noted that they were well attended by the Company's Directors', and that the proceedings of the meetings were done in compliance with the Company's State Charter and By-laws. The Board minutes also indicated that the Company's overall transactions and events were adequately supported and approved. A review of the signed affidavits of each member of the Board indicated that they had received and reviewed a copy of the December 31, 2002 financial condition examination report. Evidence of this review and approval is documented in the August 9, 2004 Board minutes.

MANAGEMENT AND CONTROL

The business, property and affairs of the Company are managed by the President and his delegated officers under the guidance of the Board of Directors.

Directors

Cumberland Mutual Fire Insurance Company's amended By-laws specify that the Board of Directors shall consist of not more than fifteen (15) Directors or less than nine (9) Directors, the exact number to be fixed from time to time by resolution adopted by a majority of the full Board. Each director shall be elected by the members of this Corporation at their annual meeting which is held on the second Monday of March. The elected directors shall hold office for a term of three years and until a successor shall have been elected and qualified, or until such position has been terminated by reduction of the number of authorized Directors, whichever shall first occur.

The annual meeting of the Board will be held on the second Monday of March, proceeding the annual meeting of members. Regular meetings of the Board will be held in the months of March, May, August and November of each year as fixed by the Board. Special meetings of the Board of Directors may be called at any time by the Chairman of the Board, the President or by the Secretary whom shall call such meeting upon the written request of a majority of the members of the Board of Directors. At all meetings of the Board of Directors, or any committee thereof, a majority of the members of the Board of Directors shall constitute a quorum for the transaction of business.

A listing of the eleven Directors serving the Company as of December 31, 2006 is as follows:

Name	Principal Occupation	Business/Residential Address
Leo T. Hogan	Chairman of the Board, CEO -- Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc.	50 Rutgers Avenue Bridgeton, NJ 08302
Robert P. Brady	President – Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc.	27 Shadow Brook Rd. Bridgeton, NJ 08302

Name	**Principal Occupation**	**Business/Residential Address**
John L. Bear	**Retired – J. L. Bear Company**	**65 Mary Elmer Dr. Bridgeton, NJ 08302**
Donald E. Strang	**President – Farm-Rite, Inc.**	**65 Roberts Avenue Bridgeton, NJ 08302**
Lawrence A. Pepper Jr.	**Partner – Gruccio, Pepper, Giovinazzi, DeSanto & Farnoly, P.A.**	**2538 Beechwood Rd. Vineland, NJ 08360**
Clair H. Miller, Jr.	**Professor – Cumberland County College**	**2 Holly Lane Bridgeton, NJ 08302**
Clarence D. McCormick	**Retired – President of Farmers & Merchants National Bank**	**65 Marimac Rd. Bridgeton, NJ 08302**
Robert L. Davis	**Retired – Henry D. Young Agency, Inc.**	**254 Washington Dr. Pennsville, NJ 08070**
Bruce R. Hankins	**Vice President / Sales – H. H. Hankins & Bros.**	**138 Beebe Run Rd. Bridgeton, NJ 08302**
Eugene W. Pashley	**Chief Executive Officer – Eugene W. Pashely Agency, Inc.**	**1312 South Shore Rd. Marmora, NJ 08223**
Stephen Paul Hoyt	**President – Hoyt & Associates**	**1140 Harmoney Hill Rd. Downingtown, Pa. 19335**

The Company's By-laws stipulate that there shall be an Executive Committee comprised solely of Directors who are not officers or employees of the Corporation, consisting of not less than three (3) or more than seven (7) members of the Board of Directors. The duties and functions of this Committee shall include, but not be limited to, recommending the selection of independent certified public accountants; reviewing the Company's financial condition; reviewing the scope and results of independent CPA or internal audits; nominating director candidates for election by Shareholders; evaluating the performance of Company officers and recommending to the Board of Directors the selection and compensation of Company officers.

Members serving on the Executive Committee at December 31, 2006 were as follows:

John L. Bear	**Donald E. Strang**
Lawrence A. Pepper, Jr.	**Clair H. Miller**

Additionally, the Company's By-laws allow for the directors to adopt by resolution one or more other committees made up of Board members appointed by the Executive Committee

or by the Chairman of the Board. Each such committee shall have the powers conferred by that appointment and not prohibited by law. As at December 31, 2006, the Company maintained the following committee's: Audit, Budget, Compensation, Facilities and Investment Committee's. The Committee's shall be comprised of three or more directors, the exact number to be determined from time to time by resolution of the Board.

<u>Audit Committee</u> consisted of four outside directors who shall have the authority together with the Executive Committee to take any and all acts that it deems necessary to carry out its oversight function, including but not limited to: make recommendations for approval by the Executive Committee the appointment, retention, termination, compensation and oversight of the independent auditor, the independent actuary, and the internal auditor; review and discuss the financial reporting and disclosure matters with management and the independent auditor and report to the Executive Committee; discuss with management the Company's risk assessment and risk management policies. The members serving on this committee at the examination date were as follows:

Clair H. Miller, Chairman	**Donald E. Strang**
Clarence D. McCormick	**Lawrence A. Pepper, Jr.**

<u>Budget Committee</u> consisted of four outside directors whose responsibilities include approval of the upcoming year's budget; review quarterly financial results; review significant policies and proposals of management affecting the Company's annual budget; make recommendations to the Board with respect to the Company's financial condition and long range strategic planning; and establish the annual performance goals for the Company's Management Incentive Program. The members serving on this committee at the examination date were as follows:

Lawrence A. Pepper, Jr., Chairman	**Clair H. Miller**
Stephen P. Hoyt	**Eugene W. Pashley**

<u>Compensation Committee</u> consisted of four outside directors whose responsibilities include review and recommendations for approval by the Executive Committee of officers, directors and employee compensation, benefits and retirement plans; and their approval of the compensation of the Chief Executive Officer and all other officers; survey the compensation practices of other comparably sized mutual companies; oversee the administration of the Company's Management Incentive Program; and approve the adoption, amendment and termination of incentive compensation and deferred compensation programs for employees. The members serving on this committee at the examination date were as follows:

Robert L. Davis, Chairman	**Donald E. Strang**
Bruce R. Hankins	**Eugene W. Pashley**

<u>Facilities Committee</u> consisted of four outside directors whose responsibilities include making recommendations to the Board regarding expenditures of funds and provide oversight for building projects, interior and exterior renovations, land acquisitions and office

establishment and relocation; review all bids and proposals from contractors and vendors; approve the execution by management of contractor and vendor contracts; and approve expenditures and review any emergency expenditures made by management in excess of authorized amounts. The members serving on this committee at the examination date were as follows:

Bruce R. Hankins, Chairman	**John L. Bear**
Lawrence A. Pepper, Jr.	**Clarence D. McCormick**

Investment Committee consisted of four outside directors whose responsibilities include to optimize the after tax yields on investment assets; make recommendations for approval by the Board of the appointment, retention, termination and compensation of the Company's investment manager and monitor their performance; monitor and insure the funds are invested within the parameters defined by the NJ State Insurance Code; monitor the Company's primary investment objectives; and review and monitor that investment are within the investment guidelines established by the Board. The members serving on this committee at the examination date were as follows:

Clarence D. McCormick, Chairman	**John L Bear**
Stephen P. Hoyt	**Clair H. Miller**

Cumberland Mutual Fire Insurance Company is required to comply with the provisions of N.J.S.A. 17:27A-4d(3) which states that "not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity". The Company was determined to be in compliance with the provisions of this statute as of the examination date, as the Board of Directors consists of eleven members of which nine are outside directors.

The Company is also required to comply with the provisions of N.J.S.A. 17:27A-4d(4) which states that "the board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer or any such entity". The Company was determined to be in compliance with the provisions of this statute as of the examination date, as the Executive, Audit, Budget, Compensation, Facilities and Investment Committee's are comprised solely of Directors who are not employees or controlling shareholders of the Company or any affiliate.

Officers

The Board of Directors has the power to elect the officers of the Corporation which consist of a Chairman of the Board, President, Secretary and Treasurer. The Board, from time to time, may also designate additional officers to be served including an Executive Vice-President, and one or more Vice-Presidents, Assistant Secretaries and Assistant

Treasurers. All officers shall perform duties in the conduct and management of the business and property of the Company as designated by the Board. More than one person may hold an office of the same title, but the person serving as President may not serve simultaneously as Secretary. The following senior officers have been elected and were serving the Company as of December 31, 2006:

Name	**Office**
Robert Paul Brady	**President**
Margaret Virginia Ball	**Secretary**
John Aldo Hervochon	**Executive Vice President, CFO, Treasurer**

REINSURANCE

The Company's reinsurance program is managed through Guy Carpenter and Company, Inc. of Philadelphia, PA., a licensed reinsurance intermediary pursuant to N.J.S.A. 17:22E-2.

The following is a summary of the various reinsurance contracts that the Company has submitted to the Office of Solvency Regulation of the New Jersey Department of Banking and Insurance as their Reinsurance Profile in effect as of December 31, 2006:

Fire and Extended Coverage

The Company's primary retention is 400,000 and policy limits are $7,250,000.

The Underlying Excess of Loss Treaty has a reinsurer limit per occurrence of $350,000.

The First Surplus Treaty has a reinsurer limit per occurrence of $4,000,000.

The Company has a First Surplus Facultative Treaty that has a reinsurer limit per occurrence of $2,500,000.

Homeowners-Property Coverage

The Company's primary retention is $400,000 and policy limits are $4,750,000.

The Underlying Excess of Loss Treaty has a reinsurer limit per occurrence of $350,000.

The First Surplus Treaty has a reinsurer limit per occurrence of $4,000,000.

Homeowners-Liability Coverage

The Company's primary retention is $400,000 and policy limits are $4,200,000.

The First Casualty Excess Treaty has a reinsurer limit per occurrence of $800,000.

The Second Casualty Excess (Clash) Treaty has a reinsurer limit per occurrence of $2,000,000.

The Third Casualty Excess (Clash) Treaty has a reinsurer limit per occurrence of $1,000,000.

Commercial/Personal Liability Coverage

The Company's primary retention is $400,000 and policy limits are $4,200,000.

The First Casualty Excess Treaty has a reinsurer limit per occurrence of $800,000.

The Second Casualty Excess (Clash) Treaty has a reinsurer limit per occurrence of $2,000,000.

The Third Casualty Excess (Clash) Treaty has a reinsurer limit per occurrence of $1,000,000.

Commercial Property

The Company's primary retention is $400,000 and policy limits are $7,250,000.

The Underlying Excess of Loss Treaty has a reinsurer limit per occurrence of $350,000.

The First Surplus Treaty has a reinsurer limit per occurrence of $4,000,000.

The Company has a First Surplus Facultative Treaty that has a reinsurer limit per occurrence of $2,500,000.

Catastrophe Reinsurance

The Company shall have first sustained, by reason of any one loss occurrence, a net loss in excess of $10,000,000.

First Excess Catastrophe Reinsurance - $5,000,000 ultimate net loss in excess of $10,000,000 ultimate net loss each occurrence.

Second Excess Catastrophe Reinsurance - $15,000,000 ultimate net loss in excess of $15,000,000 ultimate net loss each occurrence.

Third Excess Catastrophe Reinsurance - $40,000,000 ultimate net loss in excess of $30,000,000 ultimate net loss each occurrence.

Fourth Excess Catastrophe Reinsurance - $20,000,000 ultimate net loss in excess of $70,000,000 ultimate net loss each occurrence.

Fifth Excess Catastrophe Reinsurance - $10,000,000 ultimate net loss in excess of $90,000,000 ultimate net loss each occurrence.

It is, however, understood and agreed that the Company shall retain net for its own account not less than $10,000,000 net loss, each loss occurrence.

It was determined by this examination that certain reinsurance contracts did not allocate contract provisions between Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc. both of whom are named as the reinsured. The reinsurance agreements are as follows:

- **First Casualty Excess of Loss Reinsurance**
- **Property Facultative Pro Rata Reinsurance**
- **Underlying Property per Risk Excess of Loss Reinsurance**
- **Property Catastrophe Second, Third and Fourth Excess of Loss Reinsurance**
- **Obligatory First Surplus Reinsurance**
- **Casualty Clash Excess of Loss Reinsurance**
- **First and Second Workers' Compensation Excess of Loss Reinsurance**
- **Third and Fourth Workers' Compensation Excess of Loss Reinsurance**
- **Quota Share Boiler and Machinery Reinsurance**

It is recommended by this examination that the Company file a Form D with the New Jersey Department of Banking and Insurance creating a Reinsurance Allocation Inter-Company Agreement with its affiliate, Cumberland Insurance Company, Inc. on each reinsurance contract in which they are collectively referred to as the "Company" or collectively referred to as the "Cumberland Insurance Group" on the agreements. The contract should state that various allocations be fair and equitable in dividing reinsurance recoveries and the allocation of premiums among the two companies by line of business.

In addition, the Company participates in the Garden State Reinsurance Association. This association of New Jersey Mutual Insurers provides Workers' Compensation reinsurance protection.

The Company also participates with the Mutual Reinsurance Bureau with regards to the First and Fifth Excess Catastrophe Reinsurance Agreement.

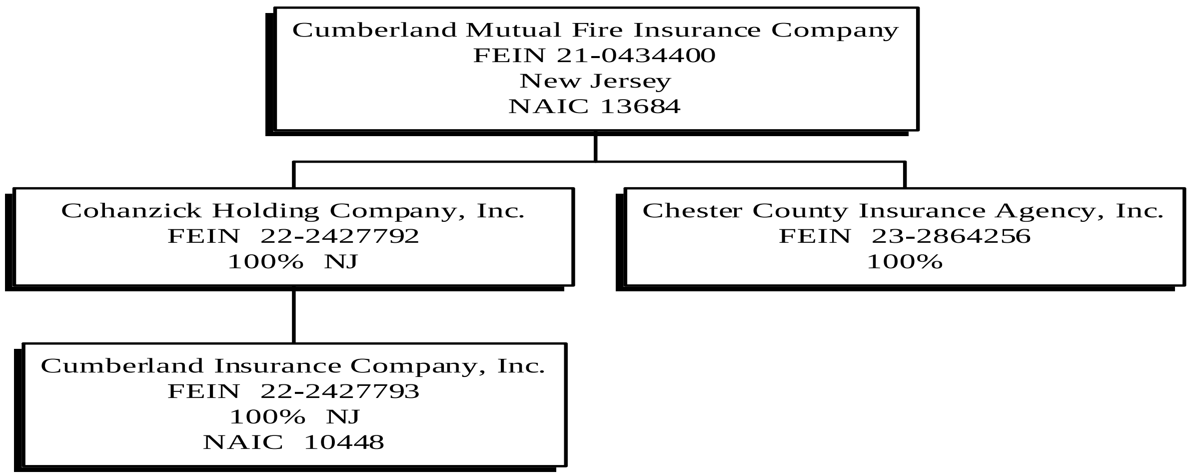
The Company is also a member of the following mandatory pools:

1. **National Council on Compensation Insurance**
2. **New Jersey Crime and Fair Plan**

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

Cumberland Mutual Fire Insurance Company is a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1 and is subject to the registration requirements of N.J.S.A. 17:27A-3. The Company owns 100% of the stock of Cohanzick Holding, Inc., a New Jersey domiciled insurance holding company, who was formed on August 16, 1982 to acquire 100% of the stock of Cumberland Insurance Company, Inc.

At December 31, 2006, it was determined by the examination that the Company did file the holding company registration statement in compliance with N.J.S.A. 17:27A-3. Below is the Company organizational chart as of December 31, 2006:



On October 1, 2000, Chester County Mutual Insurance Company merged with and into Cumberland Mutual Fire Insurance Company. As a result of this merger, the Cumberland Mutual Fire Insurance Company acquired and owns 100% of Chester County Insurance Agency, Inc.

Cumberland Mutual Fire Insurance Company has filed their Form "B" Annual Registration Statement Filings for all examination years on behalf of Cumberland Mutual Fire Insurance Company, Cohanzick Holding Company, Inc. and Cumberland Insurance Company, Inc. The examination notes the Company did not disclose Chester County Insurance Agency, Inc. on their Form B - Organizational Chart.

It is recommended by this examination that the Company amend their 2006 Form "B" filing, and all future filings, to include "Chester County Insurance Agency, Inc." in their Annual Registration Statement Filing to the New Jersey Department of Banking and Insurance in accordance with N.J.S.A. 17:27A-3 "Registration of Insurers" and in compliance with N.J.A.C. 11:1-35.13 "Form B - Insurance Holding Company System Annual Registration Statement".

INTER-COMPANY AGREEMENTS

At December 31, 2006, Cumberland Mutual Fire Insurance Company participated in various inter-company agreements with its subsidiary and affiliates. These Agreements include the following:

Tax Allocation Agreement

Effective as of January 1, 2000 by and among Cumberland Mutual Fire Insurance Company, Cohanzick Holding Company, Inc., Cumberland Insurance Company, Inc. and Chester County Insurance Agency, Inc., collectively referred to as the "Companies". The Companies are members of an affiliated group (the "Affiliated Group") as defined in section 1540 of the

Internal Revenue Code of 1986. Under the terms of this agreement, it is agreed that the tax liability of the respective members of the Affiliated Group will be apportioned pursuant to Regulation 1.1552-1(a)(2) of the Code, in accordance with the total separate tax liability attributable to each member of the Affiliated Group. All settlement shall be made thirty days after the filing of the consolidated return.

The examination notes that the Company's 2000 Tax Allocation Agreement has not been filed with the Department of Banking and Insurance in compliance with N.J.S.A. 17:27A-4a(2) which indicates that any transactions among members of a holding company system requires presentation of the transaction to the New Jersey Commissioner of Banking and Insurance thirty (30) days prior to entering into such transaction. It is recommended that the Company submit their 2000 Tax Allocation Agreement through a Form D filing to the Department of Banking and Insurance in accordance with N.J.S.A. 17:27A-4a(2).

Expense Sharing Agreement

Effective December 4, 1998, the Company entered into an Inter-company Expense Sharing Agreement with their wholly owned subsidiary, Cumberland Insurance Company, Inc. Under the terms of this agreement, each member shall pay all direct expenses of that member. Such expenses include but are not limited to: commissions, state and local insurance taxes, insurance department licenses and fees, loss adjustment, reinsurance and investment expenses. Allocable expenses shall be allocated among the members based on a percentage of premium volume. Such expense include but are not limited to: payroll, payroll taxes, fringe benefits, advertising, insurance, director fees, travel, equipment, legal, audit, real estate expenses and taxes, data processing, rent and donations. The apportioned pro rata share of incurring expenses is in accordance with SSAP No. 70 - Allocation of Expenses. Payments are due no later than sixty days after each quarter.

POLICY ON CONFLICT OF INTEREST

The Company maintains an annual Conflict of Interest Questionnaire for all directors, officers and assistant officers of the corporation. The Company's By-law, Article VI, stipulates the various conditions and actions that are and or may be deemed by the Company to be inappropriate, potential conflicts of interest and or violations of said By-law.

All directors, officers and assistant officers shall answer the Conflict of Interest Questionnaire within sixty days after each annual meeting. Thereafter, these questionnaires shall be submitted to and reviewed by the Board of Directors.

The examination reviewed all officers and directors executed Conflict of Interest Questionnaire Statements for the period under examination, noting that there were no apparent or potential conflicts of interest.

EMPLOYEE WELFARE AND PENSION PLAN

Cumberland Mutual Fire Insurance Company provides several benefit programs for its employees. Some benefit programs require contributions from employees and some are funded by the Company:

- **Defined Benefits Pension Plan**
- **401(K) Retired Savings Plan**
- **Chester Frozen Pension Plan**
- **Retiree Health Plan**
- **Medical Plan which includes Vision Coverage**
- **Dental Coverage**
- **Long Term Disability & Life Insurance**
- **AFLAC Insurance**
- **Educational Assistance Program**

The Company's Board of Directors approved the amendment to apply a "Soft Freeze" to the Defined Benefits Pension Plan; whereas, no employee hired on or after April 1, 2006 shall become an active participant in this Plan.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company and its related subsidiaries, affiliates, pension plan and annuity contracts are named insureds on a financial institution bond underwritten by Fidelity and Deposit Company of Maryland. The fidelity bond provides the Cumberland Insurance Group with fidelity coverage up to a liability limit of $1,000,000 on a single loss limit basis, for the bond period of May 14, 2006 through May 14, 2009. The amount of fidelity coverage carried on this policy meets the suggested minimum amount of fidelity coverage as measured on a group basis using the NAIC's formula and exposure index.

The Company also maintains other insurance coverage designed to protect its assets from losses arising out of various risks. All policies cover locations at the following sites: Bridgeton, NJ; Hopewell Township., NJ; Prince Frederick, Md.; and Coatesville, Pa. The following summary shows the types and amounts of coverage that were in force as at December 31, 2006:

Type of Coverage	**Amount of Limits**	
Commercial Package Policy: for NJ, PA and MD		
Commercial Property	**$10,058,880**	**Building 1 – Location 1**
	$ 1,917,760	**Bldg. Personal Property 1 – Location 1**
	$ 940,992	**Building 1 – Location 3**
	$ 104,000	**Bldg. Personal Property 1 – Location 3**
	$ 81,120	**Bldg. Personal Property 1 – Location 5**
	$ 4,600,000	**Building 1 – Location 7**
	$ 1,500,000	**Bldg. Personal Property 1 – Location 7**
	$ 307,000	**Building 1 – Location 8**
	$ 134,000	**Building 2 – Location 8**
	$ 10,000	**Deductible for all Locations**
Business Income	**$ 1,000,000**	**Building 1 – Location 1**
	$ 100,000	**Building 1 – Location 3**
	$ 15,000	**Building 1 – Location 5**
	$ 300,000	**Building 1 – Location 7**
Commercial General Liability	**$ 2,000,000**	**General Aggregate Limit (other than products completed operations)**
	$ 2,000,000	**Products Completed Operations Aggregate Limit**
	$ 1,000,000	**Personal & Advertising – Injury Limit**
	$ 1,000,000	**Each Occurrence Limit**
	$ 100,000	**Damage to Premises Rented to you Limit**
	$ 5,000	**Medical Expense Limit – any one person**
Employee Benefits	**$ 1,000,000**	**Each Claim**
	$ 2,000,000	**Annual Aggregate**
	$ 1,000	**Deductible – each claim**
Commercial Automobile	**$ 1,000,000**	**Liability**
		Personal Injury Protection and added P.I.P. (amount separately stated in P.I.P. endorsement)
	$ 1,000,000	**Uninsured Motorists**
	$ 1,000,000	**Underinsured Motorists**
		Physical Damage: comprehensive, specified causes of loss, collision, towing and labor, hired auto and non-owned auto coverage (actual cash value or cost of repair)

Commercial Inland Marine

Business Computer		
at named premises	**$ 1,105,000**	**Equipment, Media & Expense (bldg. 1, location 1)**
	$ 45,000	**Equipment & Expense (bldg. 1, location 5)**
	$ 235,000	**Equipment, Media & Expense (bldg. 1, location 7)**
at un-named premises	**$ 168,600**	**Equipment, Media & Expense**
in transit	**$ 151,600**	**Equipment & Media**
	$ 500	**Deductible – unless otherwise stated**
Fine Arts	**$ 111,876**	**Liability Limit on Scheduled Property**

Commercial Boiler & Machinery	**$ 25,000**	**Hazardous Substance Limitation – by accident**
		Business Interruption & Extra Expense Limit (for any one accident is equal to 12 consecutive months of actual loss for a total or partial interruption)

Commercial Umbrella Coverage	**$15,000,000**	**Occurrence Limit**
	$15,000,000	**Aggregate Limit**

Additional Umbrella Coverage:
for NJ, PA, & MD:
Workers Compensation; Auto Liability; General Liability and Employee Benefits

for Ohio:
General Liability and Employee Benefits

<u>Commercial Package Policy</u>:
for Ohio

Commercial Property	**$ 48,672**	**Building Personal Property 1 – Location 1**
Business Income	**$ 50,000**	**Building 1 – Location 1**

Commercial General Liability	**$**	**2,000,000**	**General Aggregate Limit (other than products completed operations)**
	$	**2,000,000**	**Products Completed Operations Aggregate Limit**
	$	**1,000,000**	**Personal and Advertising – Injury Limit**
	$	**1,000,000**	**Each Occurrence Limit**
	$	**100,000**	**Damage to Premises Rented to you Limit**
	$	**5,000**	**Medical Expense Limit – any one person**
Employee Benefits	**$**	**1,000,000**	**Each Claim**
	$	**2,000,000**	**Annual Aggregate**
	$	**1,000**	**Deductible – each claim**
Commercial Inland Marine			
Business Computer	**$**	**90,000**	**Equipment, Media & Expense (bldg. 1, location 1)**
at named premises	**$**	**90,000**	**Equipment, Media & Expense**
at un-named premises	**$**	**8,000**	**Equipment & Media**
in transit	**$**	**500**	**Deductible – unless otherwise stated**
Commercial Automobile	**$**	**1,000,000**	**Liability**
			Personal Injury Protection and added P.I.P. (amount separately stated in P.I.P. endorsement)
	$	**1,000,000**	**Uninsured Motorists - each accident**
	$	**1,000,000**	**Underinsured Motorists - each accident**
			Physical Damage: comprehensive, specified causes of loss, collision, towing and labor, hired auto and non-owned auto coverage (actual cash value or cost of repair)
Commercial Boiler & Machinery			**Property Damage – not limited**
			Business Income / Extra Expense (12 consecutive months)
	$	**1,000**	**Deductible for Comprehensive Coverage**
<u>Directors and Officers Liability</u>:	**$**	**50,000**	**Each Claim (other than securities or employment practices claims)**
	$	**50,000**	**Each Employment Practices Claim**
	$	**50,000**	**Each Securities Claim**
	$	**5,000,000**	**Aggregate Limit of Liability for the Policy Period**

Workers Compensation: for NJ, PA and MD	**$ 1,000,000**	**Bodily Injury by Accident – each accident**
	$ 1,000,000	**Bodily Injury by Disease -- each employee**
	$ 1,000,000	**Bodily Injury by Disease -- policy limit**

Workers Compensation: for Ohio	**Ohio Workers Compensation is funded by the State of Ohio**

Liability Insurance: Mt. Ephraim, N.J.	**$ 2,000,000**	**General Aggregate Limit**
	$ 1,000,000	**Personal & Advertising Injury Limit**
	$ 1,000,000	**Each Occurrence**
	$ 50,000	**Fire Damage – on any one fire**
	$ 1,000	**Medical Expense**

Liability Insurance: Swedesboro, N.J.	**$ 2,000,000**	**General Aggregate Limit**
	$ 1,000,000	**Personal & Advertising Injury Limit**
	$ 1,000,000	**Each Occurrence**
	$ 50,000	**Fire Damage – on any one fire**
	$ 1,000	**Medical Expense**

POLICY FORMS AND UNDERWRITING PRACTICES

The Company filed its rates, rules and forms filings with the New Jersey Department of Banking and Insurance for their commercial business-owners, commercial property package, commercial fire, commercial general liability and commercial umbrella liability lines of business. The Company uses Mutual Services Office (MSO) rates, rules and forms for these lines of business. The commercial line filings have been reviewed and approved by the Department and have been determined to be in compliance with N.J.S.A. 17:29AA-1 et seq. in accordance with N.J.A.C. 11:13-2.1.

The Company also filed its rates, rules and forms filings with the New Jersey Department of Banking and Insurance for their personal homeowners, personal fire, personal mobile home-owners and personal inland marine lines of business. The Company uses Mutual Services Office (MSO) rates, rules and forms for these lines of business. The personal line filings have been reviewed and approved by the Department and have been determined to be in compliance with N.J.S.A. 17:29A-1 in accordance with N.J.A.C. 11:1-2 et seq.

ACCOUNTS AND RECORDS

CMFIC's accounting books and records are maintained at the home office at 633 Shiloh Pike, Bridgeton, New Jersey.

The Company's accounting and statistical information is produced by electronic data processing equipment. Their general ledger is compiled at the home office in Bridgeton. In January of 2004, the Company converted to a computer based general ledger and accounts payable system using software of the PTE Financial Solutions / Freedom System. The general ledger is an excel spread sheet which is linked to the Freedom System.

Premium and loss information is contained on the Company's core system, CSC Point-in Processing System, and resides on the AS400 machine at the Bridgeton office. This system is used to produce relevant and timely premium and loss reports for all states. Premium and loss information contained in these reports is utilized by the Company's accounting department in the preparation of journal entries and for various other external reporting purposes.

The Company's premium information can be rated and calculated by the AGO System, which is located in the home office, and then uploaded to the AS400. The Company also uses the Insurance Data Processing, Inc. (IDP) to generate the rating, policy issuance and stat code generation for commercial lines of business for the States of Pennsylvania, Delaware, Maryland and New Jersey. This IDP information is generated from the Pennsylvania office and then uploaded to the AS400. Loss checks are produced and printed from the AS400.

The Company's investment exchanges and results are recorded in the home office with the assistance of software from the SunGard Insurance System. Also, commencing on August 1, 2006, the Company is utilizing the Simultaneous Solutions Incorporated (SIMSOL) Software which is a property estimating program for the Company's adjusters.

Financial information needed in conjunction with the verification of assets and the determination of liabilities was made available in detail and summary form. All quarterly and annual statements are prepared in-house by the Company's accounting department under the direction and management of the Controller.

ADVERTISING AND SALES MATERIAL

The Company advertises as the "Cumberland Insurance Group". A review of the Company's advertising and sales materials, which includes an on-line web sight, disclosed that the Company is in compliance with N.J.S.A. 17:18-10 and that there were no material inconsistencies between the Company's sales material and the Company's policies.

TREATMENT OF POLICYHOLDERS AND CLAIMANTS

The Company's complaint handling procedures as well as its complaint logs were reviewed for the period under examination. It was determined that the Company was in compliance with the provisions of N.J.S.A. 17:29B-4(10) which states: "This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints and the time it took to process each

complaint." The Company's complaints are received from the New Jersey Department of Banking and Insurance.

<u>CONTINUITY OF OPERATIONS</u>

A business continuity plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. Management should assess how the Company's reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion.

The Company's comprehensive Business Continuity Plan, which includes a Disaster Recovery Plan, was reviewed and approved by New Jersey Department of Banking and Insurance Office of Solvency Regulation, Information Technology Specialist, Thomas Walker.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Exhibit A **Balance Sheet as of December 31, 2006 and December 31, 2002**

Exhibit B **Summary of Operations for the Four-Year Period Ending December 31, 2006**

Exhibit C **Capital and Surplus Account for the Four-Year Period Ending December 31, 2006**

CUMBERLAND MUTUAL FIRE INSURANCE COMPANY
BALANCE SHEET AT DECEMBER 31, 2006 AND DECEMBER 31, 2002

	Current Examination at 12/31/06	Balance per Company at 12/31/06	Examination Change	Note Number	Previous Examination at 12/31/02	
Assets						
Bonds and Stocks	$213,592,317	$218,558,724	($4,966,407)	1	$169,079,951	
Real Estate:						
Properties Occupied by the Company	$12,263,690	$12,263,690	0		$2,593,587	
Properties Held for the Production of Income	$2,448,712	$2,448,712	0		$275,000	
Cash and Short Term Investments	2,665,579	2,665,579	0		5,526,593	
Other Invested Assets	4,445,329	7,189,551	(2,744,222)	2	6,293,468	
Receivable for Securities	720,357	720,357			0	
Investment Income Due and Accrued	2,096,866	2,096,866	0		2,123,756	
Premiums and Considerations:						
In Course of Collection	1,311,423	1,311,423	0	3	571,322	
Booked but Deferred and Not Yet Due	9,564,352	9,564,352	0	3	8,167,801	
Reinsurance:						
Amounts Recoverable from Reinsurers	1,324,611	1,245,505	79,106	4	450,645	
Current Federal and Foreign Income Taxes Recoverable	0	0	0		1,294,308	**
Guaranty Funds Receivable or on Deposit	396,121	396,121	0		0	
Electronic Data Processsng Equipment and Software	360,366	360,366	0		487,681	
Receivable from Parent, Subsidiaries and Affiliates	1,780,516	1,780,516	0		1,240,440	
Aggregate Write-ins for other than Invested Assets	1,025,036	1,063,036	(38,000)	5	2,212,473	
Total Admitted Assets	$253,995,275	$261,664,798	($7,669,523)		$200,317,025	
Liabilities						
Losses and Loss Adjustment Expenses	$57,916,574	$57,916,574	$0	6	$31,425,434	
Commissions Payable, contingent commissions and other similar charges	4,714,918	4,714,918	0	7	3,285,793	
Other Expenses	754,543	754,543	0		437,023	
Taxes, Licenses and Fees	1,204,260	1,204,260	0	8	570,513	
Current Federal and Foreign Income Taxes Payable	1,537,687	1,537,687	0		0	
Net Deferred Tax Liability	5,622,724	5,622,724	0		2,115,610	**
Borrowed Money	9,372	9,372	0		95,834	
Unearned Premiums	48,174,954	48,174,954	0		34,393,990	
Ceded Reinsurance Premiums Payable	407,069	407,069	0		761,923	
Provision for Reinsurance	36,600	0	36,600	9		
Amounts Withheld or Retained by Company			0		48,501	
Aggregate Write-ins for Liabilities	1,538,177	1,538,177	0		1,213,713	
Total Liabilities	$121,916,878	$121,880,278	$36,600		$74,348,334	
Surplus and Other Funds						
Unassigned Funds (Surplus)	$132,078,397	$139,784,520	($7,706,123)		$125,968,691	
Surplus as Regards Policyholders	$132,078,397	$139,784,520	($7,706,123)	10	$125,968,691	
Total Liabilities, Surplus and Other Funds	$253,995,275	$261,664,798	($7,669,523)		$200,317,025	

** - Net Deferred Tax Liability and Current Federal and Foreign Income Taxes Recoverable combined on 2002 Annual Statement - Separated for Purposes of 2006 Exhibit A Schedule.

EXHIBIT B

CUMBERLAND MUTUAL FIRE INSURANCE COMPANY
SUMMARY OF OPERATIONS FOR THE
FOUR-YEAR PERIOD ENDING DECEMBER 31, 2006

UNDERWRITING INCOME	2006	2005	2004	2003
Premiums Earned	$87,723,381	$83,101,890	$76,916,875	$70,088,353
Deductions:				
Losses Incurred	$43,540,976	$53,498,609	$47,004,938	$49,088,306
Loss Expenses Incurred	7,764,083	9,663,315	8,919,045	8,897,368
Other Underwriting Expenses Incurred	32,845,389	30,818,008	27,288,737	25,974,008
Aggregate Write-ins for Underwriting Deductions	(5)	9	(4)	6
Total Underwriting Deductions	$84,150,443	$93,979,941	$83,212,716	$83,959,688
Net Underwriting Gain or (Loss)	$3,572,938	($10,878,051)	($6,295,841)	($13,871,335)
INVESTMENT INCOME				
Net Investment Income Earned	$7,843,658	$7,017,722	$6,959,568	$6,818,858
Net Realized Capital Gains or (Losses)	3,183,728	1,689,493	1,426,202	790,443
Net Investment Gain or (Loss)	$11,027,386	$8,707,215	$8,385,770	$7,609,301
OTHER INCOME				
Net Gain or (Loss) from Agents' Balances Charged Off	($26,586)	$6,620	($56,741)	($25,902)
Finance and Service Charges not Included in Premium	328,063	344,648	351,736	353,619
Miscellaneous Income	0	0	0	59
Total Other Income	$301,477	$351,268	$294,995	$327,776
Net Income Before Dividends to Policyholders and before Federal & Foreign Income Taxes	$14,901,801	($1,819,568)	$2,384,924	($5,934,258)
Dividends to Policyholders	0	0	0	0
Net Income Before Federal Income Taxes	$14,901,801	($1,819,568)	$2,384,924	($5,934,258)
Federal Income Taxes Incurred	3,450,000	(210,000)	600,000	(1,290,000)
Net Income	$11,451,801	($1,609,568)	$1,784,924	($4,644,258)

<u>EXHIBIT C</u>

CUMBERLAND MUTUAL FIRE INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT FOR
THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2006

	2006	2005	2004	2003
NET INCOME	$11,451,801	($1,609,568)	$1,784,924	($4,644,258)
OTHER SURPLUS GAINS OR (-) LOSSES				
Net Unrealized Capital Gains or (-) Losses	$1,270,679	($1,538,292)	$2,082,263	$6,581,723
Change in Net Deferred Income Tax	(1,278,757)	489,588	(617,393)	(1,165,724)
Change in Nonadmitted Assets	(7,821,695) *	341,888	(789,280)	435,926
Change in Provision for Reinsurance	(36,600) **	0	0	741
Cumulative Effect change in Accounting Principles	0	0	0	0
Capital Changes:				
Paid In	0	0	0	0
Surplus Adjustments:				
Paid In	0	0	0	0
Dividends to Stockholders	0	0	0	0
Extraordinary Amounts of Taxes for Prior Years	0	0	0	0
Aggregate Write-in Gain or Loss in Surplus:				
Prior Period Adjustment	0	0	0	(413)
Total Other Surplus Gains or (-) Losses	($7,866,373)	($706,816)	$675,590	$5,852,253
Change in Surplus as Regards Policyholders for the Year	$3,585,428	($2,316,384)	$2,460,514	$1,207,995
Surplus as Regards Policyholders December 31, Previous Year	$128,492,969	$130,809,353	$128,348,839	$127,140,844
Surplus as Regards Policyholders December 31, Current Year	$132,078,397	$128,492,969	$130,809,353	$128,348,839

* - Examination changes of $7,669,523

** - Examination change of $36,600

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: BONDS AND STOCKS

Cumberland Mutual Fire Insurance Company reported an admitted assets for bonds, preferred stocks and common stocks of $170,702,727, $5,305,546 and $42,550,451, respectively at December 31, 2006.

A review of the Company's custodial agreement with Wachovia Bank noted that the Company no longer held their securities with Wachovia Bank. US Bank in Philadelphia, PA assumed the contracts of Wachovia Bank. US Bank is not a bank within the geographic limits of the State of New Jersey and also is not a New Jersey Qualified Bank.

In reviewing Cumberland Mutual Fire Insurance Company, it was noted by this examination that the Company did not have their bonds in a bank within the geographic limits of the State of New Jersey and not in a New Jersey Qualified Bank as per N.J.S.A. 17:24-12(g) which states that the Company "g. As long as there are held for safekeeping within the geographical limits of this State securities having a value of not less than $50,000,000.00, any other debt securities which are publicly traded."

It is recommended that the Company relocate their Bonds to a New Jersey Qualified Bank or a bank within the geographical limits of the State of New Jersey as per N.J.S.A. 17:24-12(g).

It is also recommended by this examination that the Company obtain a custodian agreement with this New Jersey Qualified Bank or a bank within the geographical limits of the State of New Jersey. This custodian agreement should contain the appropriate safeguards and controls, including the proper indemnification clauses, to replace any securities lost by the custodian as per the NAIC Financial Condition Handbook guidelines on Custodian and Safekeeping Agreements.

It was determined by this examination that investments in foreign securities and common stocks that did not have a five year dividend history would not be allowed as an admitted asset. However these items qualify as admitted assets under the basket clause. For further information please see the subsection titled Investment Basket Clause Provision under the asset titled Other Invested Assets.

It was determined by this examination after calculating the Company's Investment Basket Clause Provision that the Company should non-admit those securities classified as foreign investments and common stock investments not having a five-year dividend history under the basket clause provision in the amount of $4,966,407 for Bonds and Stocks. Please see the subsection titled Investment Basket Clause Provision under the asset titled Other Invested Assets.

It is the recommendation of this examination that the Company comply with N.J.S.A. 17:24-1(g) and non-admit those assets that exceed the basket clause limit at year-end.

NOTE 2: OTHER INVESTED ASSETS

At December 31, 2006 the Company reported an asset for Other Invested Assets of $7,189,551 which was $2,744,222 more than the amount determined by this examination of $4,445,329. Upon review, and in accordance with N.J.S.A. 17:24-1(g), it was determined by this examination that a portion of this asset will not qualify as admitted assets under the basket clause. An explanation of this qualification is summarized below:

Basket Clause Provision:

At December 31, 2006 the Company's basket clause assets and the respective limits under this clause are summarized below:

Basket Clause Limit (2005 Admitted Assets of 249,806,910 * .05)		**$ 12,490,346**
Basket Clause assets at December 31, 2006		
Bonds and Stocks:		
Investments in Foreign Securities	**12,312,393**	
Stocks without a five year dividend history	**699,031**	
Sub-total	**13,011,424**	
Other Invested Assets:		
Other Invested Assets per Schedule BA	**7,189,551**	
Total	**20,200,975**	
Total basket clause non-admitted assets at December 31, 2006		**$7,710,630**
Total basket clause non-admitted asset for Bonds and Stocks (64%)		**4,966,407**
Total basket clause non-admitted asset for Other Invested Assets (36%)		**2,744,222**

The basket clause non-admitted asset of $7,710,630 was allocated between the assets Bonds and Stocks in the amount of $4,966,407 and Other Invested Assets in the amount of $2,744,222. The 64% allocation for Bonds and Stocks was based on Investments in Foreign Securities and Stocks without a five year dividend history totaling $13,011,424 divided by the Sub-total of basket clause assets of $20,200,975. The 36% allocation for Other Invested Assets was based on Other Invested Assets per Schedule BA totaling $7,189,551 divided by the Sub-total of basket clause assets of $20,200,975.

At December 31, 2006 the Company exceeded its basket clause limits in the amount of $7,710,630. The Company reported 16 foreign bonds, 2 foreign preferred stocks and 4 foreign common stocks that had an admitted asset value of $12,312,393. If the Company chooses to invest in securities of foreign countries where the Company is not licensed to

transact business, then these foreign securities are included as part of the "basket clause provision" in order to be in compliance with the provisions of N.J.S.A. 17:24-10.

The Company reported 8 stocks that did not have a five-year history of dividend payments. Accordingly, the Company was not in compliance with N.J.S.A. 17:24-1(e). The total fair value of this stock was $ 699,031. Additionally, all investments reported in Schedule BA will also be included in the basket clause calculation.

It is the recommendation of this examination that the Company comply with N.J.S.A. 17:24-1(g) and non-admit those assets that exceed the basket clause limit at year-end.

NOTE 3: PREMIUMS AND CONSIDERATIONS

At December 31, 2006 the Company reported an asset for Premiums and Considerations of $10,875,775 which was accepted for purposes of this examination.

Upon review of the premium data it was determined that the Company was unable to provide a detail listing of the aging of premium receivables on a policy by policy basis. To calculate its uncollected premiums, the Company subtracted from premiums written, amounts received from insureds and other adjustments, such as cancellations. It is recommended that the Company devise a system to track the aging of premiums receivable on a year to date policy by policy basis.

NOTE 4: AMOUNTS RECOVERABLE FROM REINSURERS

At December 31, 2006, the Company reported an asset for amounts recoverable from reinsurers of $1,245,505 which was $79,106 less than the amount determined by this examination of $1,324,611.

The examination difference was attributed to the Company reporting overdue reinsurance recoverable as a non-admitted asset instead of part of the liability – Provision for Reinsurance as per SSAP No. 62 – Property and Casualty Reinsurance, bullet No. 19. – Accounting for Reinsurance.

Upon recalculation of the amounts recoverable from reinsurers, it was determined by this examination that the Company has an amounts recoverable from reinsurer of $1,324,611 and a liability for Provision from Reinsurance of $36,600. Please see NOTE 10: Provision for Reinsurance.

It is recommended by this examination that the Company report overdue reinsurance as part of the liability account – Provision for Reinsurance in future annual statements.

NOTE 5: AGGREGATE WRITE-INS FOR OTHER THAN INVESTED ASSETS

At December 31, 2006 the Company reported an asset for Aggregate Write-ins for Other than Invested Assets of $1,063,036 which was $38,000 more than the amount determined by this examination of $1,025,036.

The examination difference was due to the Company recording a certificate of contribution in the amount of $38,000 that was the result of the Company's 2001 merger with Chester County Mutual Insurance Company. The examination determined this amount to be $0.

NOTE 6: LOSS AND LOSS ADJUSTMENT EXPENSES

At December 31, 2006 the Company reported a net liability for Losses and Loss Adjustment Expenses of $57,916,574. A review of the reserves for losses and loss adjustment expenses was completed under the direction of the Property and Casualty Actuarial Division of the New Jersey Department of Banking and Insurance. On the basis of this review, the Company's reserves were determined to be reasonable and the balance will be accepted as stated.

Net loss reserves, as reported by the Company and as determined by this examination, totaled $48,085,248.

Net loss adjustment expense reserves, as reported by the Company and as determined by this examination, totaled $9,831,326.

The examination performed reconciliations of case reserves and paid loss totals from annual statement page 9 "Losses Paid and Incurred" and page 10 "Unpaid Losses and Loss Adjustment Expenses" to Schedule P of the Company's annual statement.

NOTE 7: COMMISSIONS PAYABLE, CONTINGENT COMMISSIONS AND OTHER SIMILAR CHARGES

At December 31, 2006 the Company reported a liability for commissions payable, contingent commission and other similar charges of $4,714,918 which was accepted for examination purposes.

In the review of this liability, it was noted that the Company does not record and establish a liability for Commission and Brokerage Contingents in a manner consistent with the calculation of the Contingent Commission liability of the Cumberland Insurance Group, though consistent with practice established within the Company for the past twenty years.

It is recommended by this examination that the Company in future annual statements calculate the liability of Commission and Brokerage Contingents by individual Company (Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc.) and disburse this liability separately by individual Company.

NOTE 8: TAXES, LICENSES AND FEES

At December 31, 2006 the Company reported a liability for Taxes, Licenses and Fees of $1,204,260 which was accepted for purposes of this examination.

It was determined by this examination that the Company did not include Finance and Services Charges not Included in Premiums with World Wide Premiums on their New Jersey Premium Tax form. It is recommended that the Company report their New Jersey Premium Tax form to include Finance and Service Charges not Included in Premiums on a World Wide Premiums basis in future filings.

NOTE 9: PROVISION FOR REINSURANCE

At December 31, 2006, the Company reported a balance of $0 for Provision for Reinsurance which was $36,600 less than the amount of $36,600 as determined by this examination.

In the review of this liability, it was noted that the Company reported overdue reinsurance as a non-admitted asset under the asset account titled Amounts Recoverable for Reinsurance. After reclassifying the overdue amounts recoverable to the proper annual statement Schedule F exhibits, it was determined by this examination that the Company under-reserved for Provision for Reinsurance in the amount of $36,600 for year end 2006.

It is recommended by this examination that the Company report overdue amounts recoverable from reinsurers under Schedule F – Part 3 and Part 4 by reinsurer and calculate the proper penalty for overdue reinsurance in Schedule F – Part 5, Part 6 and Part 7 and record this penalty under the Liability Line 16 – Provision for Reinsurance.

NOTE 10: SURPLUS AS REGARDS POLICYHOLDERS

Unassigned Funds (Surplus)

The Company reported surplus as regards to policyholders at December 31, 2006 of $139,784,520 which consisted of unassigned funds of $139,784,520. The examination reported surplus as regards to policyholders of $132,078,397 which was $7,706,123 less than the amount reported by the Company. This decrease is due to examination changes to the Company's various assets and liability accounts, which ultimately affect the unassigned funds (surplus) account as follows:

Unassigned Funds (Surplus) at December 31, 2006 (per Company)		**$ 139,784,520**
Decreases in Surplus:		
Bonds and Stocks	**$4,966,407**	
Other Invested Assets	**2,744,222**	
Aggregate Write-ins for Other than Invested Assets	**38,000**	
Provision for Reinsurance	**36,600**	
Total Decreases in Surplus	**7,785,229**	
Increases in Surplus:		
Amounts Recoverable for Reinsurers	**79,106**	
Total Increases in Surplus	**79,106**	
Net Decrease in Unassigned Funds (Surplus)		**7,706,123**
Unassigned Funds (Surplus) at December 31, 2006 (per Examination)		**$132,078,397**

SUMMARY OF RECOMMENDATIONS

Territory and Plan of Operation (pg. 10)

It is recommended that the Company execute a signed contract with "Alliance Claims Solutions" for the services which are provided to the Company by Alliance Claims Solutions.

Reinsurance (pg. 18)

It is recommended by this examination that the Company file a Form D with the New Jersey Department of Banking and Insurance creating a Reinsurance Allocation Inter-Company Agreement with its affiliate, Cumberland Insurance Company, Inc. on each reinsurance contract in which they are collectively referred to as the "Company" or collectively referred to as the "Cumberland Insurance Group" on the agreements. The contract should state that various allocations be fair and equitable in dividing reinsurance recoveries and the allocation of premiums among the two companies by line of business.

Regulation of Insurance Holding Company Systems (pg. 19)

It is recommended by this examination that the Company amend their 2006 Form "B" filing, and all future filings, to include "Chester County Insurance Agency, Inc." in their Annual Registration Statement Filing to the New Jersey Department of Banking and Insurance in accordance with N.J.S.A. 17:27A-3 "Registration of Insurers" and in compliance with N.J.A.C. 11:1-35.13 "Form B - Insurance Holding Company System Annual Registration Statement".

Inter-Company Agreements (pg. 20)

It is recommended that the Company submit their 2000 Tax Allocation Agreement through a Form D filing to the Department of Banking and Insurance in accordance with N.J.S.A. 17:27A-4a(2).

Bonds and Stocks (pg. 32)

It is recommended that the Company relocate their Bonds to a New Jersey Qualified Bank or a bank within the geographical limits of the State of New Jersey as per N.J.S.A. 17:24-12(g).

It is also recommended by this examination that the Company obtain a custodian agreement with this New Jersey Qualified Bank or a bank within the geographical limits of the State of New Jersey.

It is the recommendation of this examination that the Company comply with N.J.S.A. 17:24-1(g) and non-admit those assets that exceed the basket clause limit at year-end.

Other Invested Assets **(pg. 34)**

It is the recommendation of this examination that the Company comply with N.J.S.A. 17:24-1(g) and non-admit those assets that exceed the basket clause limit at year-end.

Premiums and Considerations **(pg. 34)**

It is recommended that the Company devise a system to track the aging of premiums receivable on a year to date policy by policy basis.

Amounts Recoverable for Reinsurers **(pg. 34)**

It is recommended by this examination that the Company report overdue reinsurance as part of the liability account – Provision for Reinsurance in future annual statements.

Commissions Payable, Contingent Commissions and Other Similar Charges **(pg. 35)**

It is recommended by this examination that the Company in future annual statements calculate the liability of Commission and Brokerage Contingents by individual Company (Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc.) and disburse this liability separately by individual Company.

Taxes, Licenses and Fees **(pg. 36)**

It is recommended that the Company report their New Jersey Premium Tax form to include Finance and Service Charges not Included in Premiums on a World Wide Premiums basis in future filings.

Provision for Reinsurance **(pg. 36)**

It is recommended by this examination that the Company report overdue amounts recoverable from reinsurers under Schedule F – Part 3 and Part 4 by reinsurer and calculate the proper penalty for overdue reinsurance in Schedule F – Part 5, Part 6 and Part 7 and record this penalty under the Liability Line 16 – Provision for Reinsurance.

SUBSEQUENT EVENTS

The Commissioner of Banking and Insurance of the State of New Jersey, on October 31, 2007, amended the Company's Certificate of Authority through a Certificate of Compliance which reflects the changes that were made to the Company's Charter on March 23, 2000. This amended authority authorizes the Company to transact the kinds of insurance specified in paragraphs "a", "b", "e", "f", "j", "k", "l", "m", "n", and "o" of N.J.S.A. 17:17-1 and "Health Insurance" as defined in N.J.S.A. 17B:17-4. The Company's authority granted under paragraph "o" of said statue is further delineated as follows: "Against all physical loss to buildings and structures including consequential loss and against loss or damage to property of others caused by an insured " and "Against loss or damage to property by power failure or mechanical breakdown."

Effective April 1, 2007, Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, (the Companies) withdrew from the Garden State Reinsurance Association (GSRA) Claims Service Center. GSRA handles the Workers Compensation Claims for New Jersey only. The Companies have no intent of withdrawing from the following GSRA services: reinsurance costs, unit state reporting, share of Guy Carpenter costs and other items that come before GSRA.

Effective February 14, 2007, the Companies entered into a Third Party Claims Administrative Services Agreement by and between PMA Management Corp. (PMA), incorporated under the laws of the Commonwealth of Pennsylvania and Cumberland Mutual Fire Insurance Company trading as "The Cumberland Insurance Group". PMA is a duly authorized provider of TPA services for the State of New Jersey. PMA shall provide customary and appropriate Workers' Compensation claims handling services for all qualified New Jersey claims. Such services include but are not limited to: investigation of each claim, adjusting, settling or litigation subrogation setting claim reserves and necessary and customary administrative tasks. The Company shall pay PMA the following fees on a quarterly basis: claims services fees, takeover claim fees, annual administrative fees, managed care fees, risk control service fees, data conversion fee and risk management information system fees. This Agreement is for a term of one (1) year until February 13, 2008 and shall remain in full force and effect unless otherwise amended or terminated. The Agreement shall be terminated upon ninety (90) days advance written notice by either party with or without cause.

Effective February 14, 2008, the Company entered into a Third Party Claims Administrative Services Agreement by and between PMA Management Corp. (PMA), incorporated under the laws of the Commonwealth of Pennsylvania and Cumberland Mutual Fire Insurance Company and Cumberland Insurance Company, Inc. trading as "the Cumberland Insurance Group". PMA is duly authorized provider of TPA services for the State of New Jersey and for the Commonwealth of Pennsylvania. PMA shall provide customary and appropriate Workers' Compensation claims handling services for all qualified New Jersey and Pennsylvania claims. Such services include, but are not limited to: investigation of each claim, adjusting, settling or litigation subrogation setting claim reserves and necessary and

customary administrative tasks. The Company shall pay PMA the following fees on a quarterly basis: claims services fees, takeover claim fees, annual administrative fees, managed care fees, risk control service fees, data conversion fee and risk management information system fees. This Agreement is for a term of one (1) year until February 13, 2009 and shall remain in full force and effect unless otherwise amended or terminated. The Agreement shall be terminated upon ninety (90) days advance written notice by either party with or without cause. The Agreement between PMA and the Cumberland Insurance Group, dated April 19, 2002, shall be superseded by the terms and conditions of this Agreement.

STATEMENT BY NEW JERSEY DEPARTMENT OF BANKING AND INSURANCE PROPERTY AND CASUALTY ACTUARY

Losses and Loss Adjustment Expenses findings in the 2006 financial condition examination report of Cumberland Mutual Fire Insurance Company are the responsibility of the Property and Casualty Actuarial Unit of the Office of Solvency Regulation of the New Jersey Department of Banking and Insurance.

/S/
Boris Privman, MAAA, FCAS

State of New Jersey
County of Mercer

Subscribed and sworn to before me, on this 17th day of June, 2008.

/S/
Catherine M. Liptak
Notary Public of New Jersey
My commission expires: January 21st, 2013

CONCLUSION

A regular statutory financial condition examination was conducted by the undersigned with the assistance of fellow examiners of the New Jersey Department of Banking and Insurance examination staff.

The examination and audit was conducted at the Cumberland Mutual Fire Insurance Company's office in Bridgeton, New Jersey.

Respectfully Submitted,

/S/

Vincent Kaighn, CFE
Examiner-in-Charge

CUMBERLAND MUTUAL FIRE INSURANCE COMPANY

I, Vincent Kaighn, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2006 to the best of my information, knowledge and belief.

Respectfully Submitted,

/S/
Vincent Kaighn
Supervising Insurance Examiner
New Jersey Department of Banking & Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, on this 18th day of June, 2008.

/S/
Catherine M. Liptak
Notary Public of New Jersey
My commission expires: January 21st, 2008